

## MONEY MYTHS SERIES

# Velocity Banking: Does a HELOC Pay Off Your Mortgage Faster? (2026)

*A day-by-day test of the velocity banking HELOC strategy against plain extra principal payments, plus the HELOC risks under federal and California law.*

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: [ridleylawoffices.com/velocity-banking/](https://ridleylawoffices.com/velocity-banking/)

Part of our [\*money myths series\*](#), where we check what social media says about money against the actual rules.

**The pitch:** run your whole paycheck through a home equity line of credit, pay your bills from the line, and every few months move a big "chunk" from the line onto your mortgage. Do that and you'll pay off a 30-year mortgage in 5 to 7 years without earning more or spending less.

**The verdict:** the HELOC doesn't pay off anything. Your spare cash does. In our worked example, sending the same spare cash straight to the mortgage pays it off in the same month as velocity banking, with a difference in total interest of about \$45 over 15 years, and without a variable-rate loan the bank can freeze. If the HELOC rate climbs, velocity banking costs you more.

**7.28%**

average 30-year fixed mortgage rate, week of October 1, 2026 (Freddie Mac)

**7.29%**

average HELOC rate, September 30, 2026 (Bankrate survey)

**3.25% to 8.50%**

range of the bank prime rate, 2020 to 2024 (Federal Reserve H.15)

**\$2,985 a month**

extra needed to pay off our \$350,000, 6.5% example in 7 years, HELOC or not

**\$33.4 million**

fees refunded over a mortgage "accelerator" program's savings claims (CFPB, 2015)

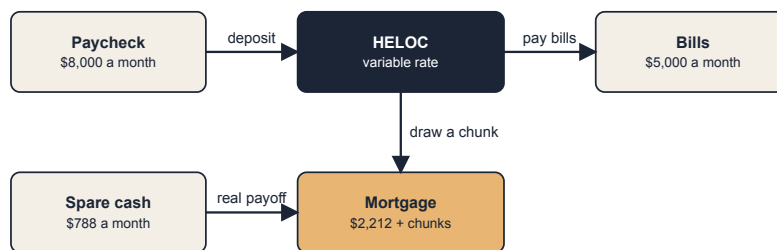
## What is velocity banking?

Velocity banking is a debt payoff routine that uses a home equity line of credit (HELOC) as your checking account and as the source of large extra payments on your mortgage.

On YouTube and TikTok, you open a HELOC. Your paycheck goes into the HELOC, which lowers its balance. Your bills come out of the HELOC. Every so often you draw a chunk, say \$20,000, and pay it to your mortgage principal. Then you let your paychecks pay the HELOC back down and repeat. Money magazine reported in 2021 on one popular video that claimed the method can pay off a 30-year mortgage "in just seven years." The same idea was sold before social media. In 2008, Marketplace quoted the Money Merge Account's pitch to pay off a mortgage "in as little as one-third of the time," and the columnist's advice was to skip the special software and make extra principal payments.

It's closely related to [infinite banking](#), the "be your own bank" life insurance pitch. Both promise that routing money through a line of credit creates savings that don't come from earning more or spending less.

More homeowners have a HELOC to try it with. The Federal Reserve Bank of New York reports HELOC balances of \$459 billion in the second quarter of 2026, \$142 billion above their low in early 2022.



**Who gets paid.** The lender gets paid first. In our example below, the HELOC lender collects about \$10,631 in interest that the plain extra-payment approach never pays (the mortgage lender collects a little less, so the totals come out nearly even), and HELOCs can carry appraisal fees, closing costs, annual fees, transaction fees, and inactivity fees, according to the CFPB's HELOC booklet. Then there's whoever is teaching it. If the person explaining velocity banking sells a course, coaching, a spreadsheet, or software, that's their pay, whether or not your mortgage ever gets paid off early. In 2015 the CFPB ordered Paymap, which advertised an "Equity Accelerator" and, according to the consent order, typically charged a \$295 enrollment fee, to refund \$33.4 million in fees to about 125,000 consumers, and said Paymap "had no factual basis" for its claim that the average customer would save over \$33,000 in interest.

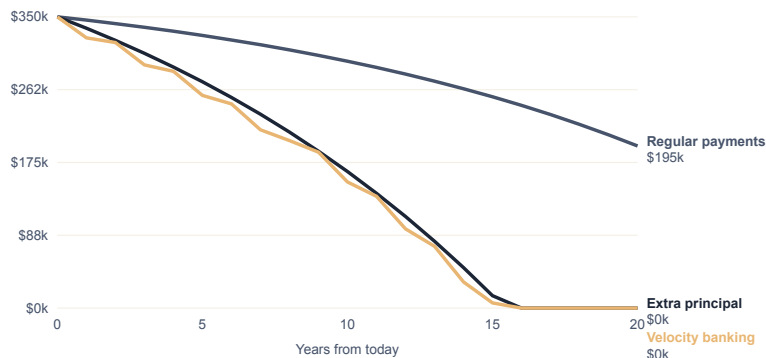
## Does velocity banking pay off a mortgage faster?

Only as fast as your spare cash would on its own: in our example it pays off the mortgage in 15.5 years, the same as sending that cash straight to principal.

Our worked example is hypothetical, and the code behind it simulates every day of the loan. A household takes home \$8,000 a month. It spends \$5,000 a month on everything but the mortgage. It owes \$350,000 on a 30-year mortgage at 6.5%, so the principal and interest payment is \$2,212. That leaves \$788 a month of spare cash. We

compared three choices:

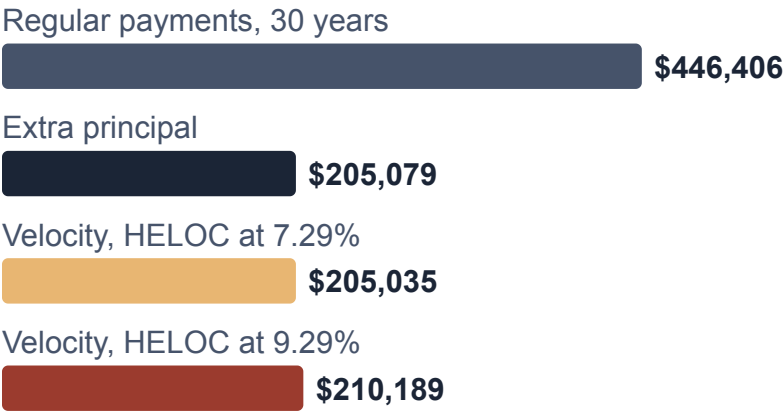
- ✓ **Regular payments.** Pay the mortgage on schedule and keep the spare cash.
- ✓ **Extra principal.** Send the \$788 to the mortgage as extra principal each month.
- ✓ **Velocity banking.** Deposit both paychecks into a HELOC at 7.29%, pay the bills and the mortgage from it, and draw a \$20,000 chunk onto the mortgage whenever the HELOC is back to zero. Our model charges HELOC interest daily on the balance.



Mortgage balance at the end of each year. Velocity banking column also carries a HELOC balance of up to about \$20,700 along the way.

| Year | Regular payments | Extra principal | Velocity banking |
|------|------------------|-----------------|------------------|
| 0    | \$350,000        | \$350,000       | \$350,000        |
| 3    | \$337,460        | \$306,240       | \$292,284        |
| 5    | \$327,638        | \$271,964       | \$255,660        |
| 7    | \$316,457        | \$232,944       | \$214,298        |
| 10   | \$296,716        | \$164,055       | \$151,517        |
| 12   | \$281,254        | \$110,096       | \$95,184         |
| 15   | \$253,957        | \$14,836        | \$6,137          |
| 20   | \$194,828        | \$0             | \$0              |

Extra principal pays the loan off in 15.5 years. Velocity banking takes 15.5 years. The lines overlap because the same dollars are doing the work. Each chunk is a loan from the HELOC that your spare cash has to repay, and until it does, the HELOC charges interest on it.



Hypothetical household. Velocity years include the months needed to clear the last HELOC chunk.

| Strategy                         | Years to pay off | Mortgage interest | HELOC interest | Total interest |
|----------------------------------|------------------|-------------------|----------------|----------------|
| Regular payments                 | 30.0             | \$446,406         | \$0            | \$446,406      |
| Extra principal, same spare cash | 15.5             | \$205,079         | \$0            | \$205,079      |
| Velocity banking, HELOC 7.29%    | 15.5             | \$194,404         | \$10,631       | \$205,035      |
| Velocity banking, HELOC 9.29%    | 15.6             | \$196,452         | \$13,737       | \$210,189      |

Velocity banking came out about \$45 less in total interest than plain extra principal at today's average HELOC rate. Over 15 years, that's a rounding error. If the HELOC rate is two points higher, velocity banking costs \$5,110 more and takes 15.6 years. The plain extra payment doesn't care what HELOC rates do.

## Why do the videos say 7 years?

Because the example family in the video has a lot of spare cash: to pay off our \$350,000 mortgage in 7 years, you need about \$2,985 a month in extra principal, with or without a HELOC.

That's a total mortgage outlay of about \$5,197 a month instead of \$2,212. Money's 2021 report on velocity banking said the method "only works if you spend less than you earn," and that the more you save, the faster it goes. That's true of every payoff plan. The HELOC doesn't drive the payoff. The gap between income and spending does.

## Isn't the HELOC's daily interest the trick?

It's real but small: parking your paycheck in the HELOC for a few weeks trims a little interest, and in our example that's worth about \$45 over the life of the plan at a 7.29% HELOC.

The pitch leans on the fact that HELOC interest accrues on the daily balance while a mortgage charges interest monthly. The CFPB explains standard amortization this way: each payment covers that month's interest first, and the rest reduces the principal, so a lower balance means less interest the next month. An extra principal payment lowers the balance by the same amount whether the dollars came from a HELOC draw or from your checking

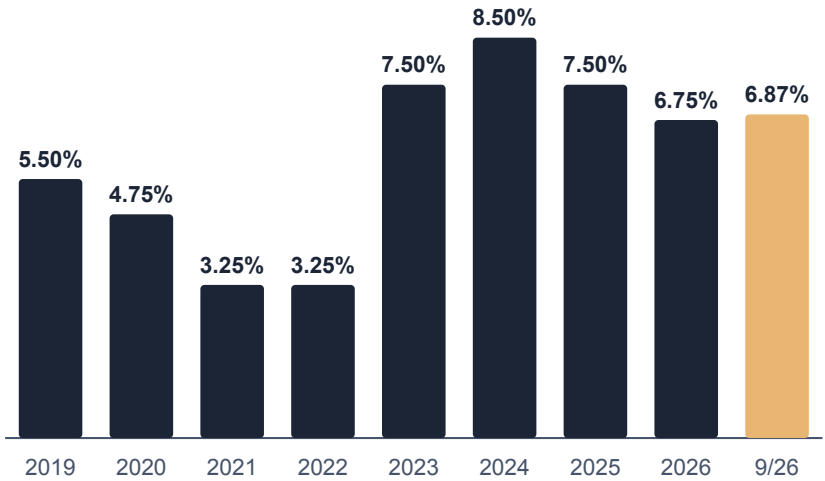
account. The only extra benefit of velocity banking is that each paycheck sits against the HELOC balance for a few days before the bills go out. That benefit shrinks to nothing, or turns into a cost, once the HELOC rate is above your mortgage rate. Right now, the average HELOC rate (7.29%) and the average new 30-year mortgage rate (7.28%) are almost identical.

## What can go wrong with velocity banking?

You swap part of a fixed mortgage for a second loan with a floating rate that the lender can freeze or call, and both tax law and California foreclosure law treat that second loan worse.

### The rate moves

The CFPB says HELOCs "usually have a variable interest rate," so payments can change month to month. Most float on the bank prime rate. In 2020 to 2022 prime was 3.25%. By August 2023 it was 8.50%, where it stayed for a year. That's the kind of swing that turns a small velocity banking savings into a cost.



Federal Reserve H.15, series RIFSPBLP\_N.M, downloaded October 7, 2026.

| Month    | Bank prime rate (monthly average) |
|----------|-----------------------------------|
| Jan 2019 | 5.50%                             |
| Jan 2020 | 4.75%                             |
| Jan 2021 | 3.25%                             |
| Jan 2022 | 3.25%                             |
| Jan 2023 | 7.50%                             |
| Jan 2024 | 8.50%                             |
| Jan 2025 | 7.50%                             |
| Jan 2026 | 6.75%                             |
| Sep 2026 | 6.87%                             |

## The bank can freeze the line

Federal Regulation Z lets a lender stop further draws or cut the credit limit if your home value falls well below its appraised value, if it reasonably believes you can't repay because your finances changed, or if you default on a material obligation (12 C.F.R. 1026.40(f)(3)(vi)). In 2009 the Federal Reserve told consumers that lenders can do this "regardless of whether the consumer has made timely payments," with written notice due within three business days. During the 2008 housing crash, the Fed's compliance newsletter reported that "many financial institutions have begun freezing or reducing credit limits." A velocity banking household that uses the HELOC as its checking account finds out about a freeze when the bills bounce.

## Your house is the collateral

The CFPB puts it plainly: if you fall behind on a HELOC, you "could lose your home." Some HELOCs end with a balloon payment, and the CFPB's booklet warns that if you can't pay or refinance it, you could lose the home.

## The tax deduction disappears

Interest on home equity debt isn't deductible unless the money is used to buy, build, or substantially improve the home (26 U.S.C. 163(h)(3)(F) and IRS Publication 936). The 2025 budget act made that rule permanent. HELOC draws used for groceries and utilities produce no deductible interest. For most families who don't itemize, this won't change much, but it's one more way the HELOC loses to the mortgage.

## California's foreclosure protections are weaker for a HELOC

California's strongest borrower protection, Code of Civil Procedure section 580b, bars a deficiency judgment on a loan used to pay the purchase price of a home of four units or fewer. A HELOC used to pay bills isn't that kind of loan. And if the first mortgage lender forecloses and the sale wipes out the HELOC, the HELOC lender isn't the one who sold the house. In *Black Sky Capital, LLC v. Cobb* (2019) 7 Cal.5th 156, the California Supreme Court applied its earlier holding in *Roseleaf Corp. v. Chierighino* (1963) 59 Cal.2d 35 that the nonjudicial foreclosure rule in section 580d "does not preclude a deficiency judgment for a nonselling junior lienholder." In plain terms, the HELOC lender can still sue you for what you owe. And the Homeowner Bill of Rights protections in the Civil Code apply only to first-lien mortgages on owner-occupied homes (Civ. Code, § 2924.15). Whether a particular HELOC draw counts as refinancing a purchase loan is a fact-specific question, and you'd want a lawyer to look at it before relying on it either way.

If your house is in a living trust, a HELOC also has to be set up through the trust. See our page on [borrowing against a house in a living trust](#).

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## Has anyone been sued over mortgage payoff programs?

Yes, though not over velocity banking itself: the CFPB took action in 2015 against an "Equity Accelerator" program for deceptive savings claims.

The CFPB's consent order against LoanCare and its press release against Paymap describe a program that took mortgage payments more often in exchange for fees and advertised average interest savings of over \$33,000. The CFPB found that claim had "no factual basis" and ordered all fees since July 21, 2011 returned. LoanCare settled without admitting or denying the findings. We didn't find an FTC, CFPB, state attorney general, or California DFPI action against a velocity banking course as of October 2026. That's not an endorsement. It means the pitch mostly costs people interest and course fees rather than producing regulator files.

## Comparison: velocity banking vs. extra principal payments

|                               | Velocity banking                                                         | Extra principal payments                         |
|-------------------------------|--------------------------------------------------------------------------|--------------------------------------------------|
| What pays off the mortgage    | Your spare cash, routed through a HELOC                                  | Your spare cash, sent directly                   |
| Payoff in our example         | 15.5 years                                                               | 15.5 years                                       |
| Total interest in our example | \$205,035 (HELOC 7.29%), \$210,189 (HELOC 9.29%)                         | \$205,079                                        |
| Interest rate risk            | Variable HELOC rate                                                      | None on a fixed-rate loan                        |
| Can the bank stop it?         | Yes, it can freeze or cut the line (Reg Z)                               | No                                               |
| Extra fees                    | HELOC closing, annual, and transaction fees, plus any course or software | Usually none, but check for a prepayment penalty |
| Effort                        | Daily cash management through a credit line                              | One automatic payment                            |

## What should you do instead?

- 1 Find the real surplus**

Track a few months of income and spending. That number, not a HELOC, sets your payoff date.
- 2 Pay higher-rate debt first**

If you carry credit card balances at a higher rate than your mortgage, pay those off before you prepay the mortgage.
- 3 Keep an emergency fund in cash**

Money you sent to the mortgage can't be pulled back out without a new loan. Keep a cushion before prepaying.
- 4 Send extra principal directly**

Ask your servicer how to mark payments as principal-only. The CFPB says prepayment penalties "do not normally apply" to extra principal paid in small amounts, and federal rules allow them only on certain fixed-rate loans and only in the first three years (12 C.F.R. 1026.43(g)). Check your note.

## **5 Weigh prepaying against investing**

Every dollar of prepayment earns your mortgage rate, guaranteed. That's 3% on a 3% loan and 7% on a 7% loan. Compare that with what the same dollar could earn elsewhere. Make sure you're getting any employer retirement match first.

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## **When is a HELOC a good idea?**

A HELOC can be a sensible tool for a home improvement, where the interest may be deductible, or as an untouched backstop for emergencies. The CFPB's advice is to "only consider a HELOC if you're confident you can keep up with the loan payments." What it isn't is a payoff accelerator.

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## **Questions people ask**

### **Is velocity banking a scam?**

It's legal, and the arithmetic checks out. The problem is that it credits the HELOC for savings that come from your spare cash. Many people would do better making extra principal payments with no HELOC at all.

### **Does velocity banking work with a credit card?**

The same logic applies, with a much higher interest rate on the card. That makes it worse, not better.

### **How long does velocity banking take to pay off a mortgage?**

As long as your spare cash would take on its own. In our example, about 15.5 years on a \$350,000 mortgage with \$788 a month of spare cash.

### **Is a HELOC rate lower than my mortgage rate?**

Not for most people right now. The September 30, 2026 average HELOC rate was 7.29% (Bankrate), and HELOC rates float. If you locked a mortgage below that, velocity banking moves debt from a cheaper loan to a pricier one.

### **Can the bank close my HELOC?**

Yes. Regulation Z lets the lender freeze or reduce the line in several situations, including a big drop in your home's value, even if you've paid on time.

### **Is HELOC interest tax-deductible?**

Only if the money buys, builds, or substantially improves the home that secures it (IRS Publication 936). HELOC money used for bills or to pay down the mortgage doesn't qualify.

Related reading in our [money myths](#) series: [infinite banking](#), [IUL as a Roth alternative](#), and [premium-financed life insurance](#). On home equity protection, see our [California homestead exemption guide](#). For what happens to a mortgage at death, see [inheriting a house with a mortgage](#).

*This page is general information about California and federal law. It isn't legal, tax, or financial advice for your situation. The worked example is hypothetical and its returns and rates are assumptions.*

## SOURCES

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- 12 C.F.R. § 1026.40 and § 1026.43(g) (eCFR, current as of September 30, 2026).
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- *Black Sky Capital, LLC v. Cobb* (2019) 7 Cal.5th 156, [S243294](#) (May 6, 2019).
- Money, [What Is 'Velocity Banking,' the YouTube Mortgage Strategy?](#) (January 30, 2021).
- Marketplace, [Mortgage Accelerator Programs?](#) (May 2, 2008).

## Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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